

**STATE OF MONTANA  
MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA**

**BASIC FINANCIAL  
STATEMENTS AND SUPPLEMENTARY  
INFORMATION**

**FISCAL YEARS ENDED JUNE 30, 2005 AND 2006**

**CONDUCTED UNDER CONTRACT BY  
C H M S, P.C.  
CONTACT: TARA LEE HILL, CPA  
PHONE #: (406) 433-2092**

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
JUNE 30, 2005 AND 2006**

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**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
JUNE 30, 2005 AND 2006**

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## LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Jim Pellegrini

November 2006

The Legislative Audit Committee  
of the Montana State Legislature:

Enclosed is the report on the audit of Miles Community College for the two fiscal years ended June 30, 2006.

The audit was conducted by CHMS, P.C., under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is included in the back of the audit report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat".

Scott A. Seacat  
Legislative Auditor

06C-06

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA**

**APPOINTIVE AND ADMINISTRATIVE OFFICIALS**

**Montana Board of Regents of Higher Education**

Lynn Morrison-Hamilton	Chair
Stephen M. Barrett	Vice-Chair
Clayton Christian	Regent
Mark J. Semmens	Regent
Lila Taylor	Regent
Dr. Janine Pease	Regent
Heather O'Loughlin	Student Regent
Brian Schweitzer	Governor*
Linda McCulloch	Superintendent of Public Instruction*

**Office of the Commissioner of Higher Education**

Sheila Sterns	Commissioner of Higher Education
Roger Barber	Deputy Commission for Academic And Student Affairs
Mick Robinson	Associate Commissioner for Fiscal Affairs
Cathy Swift	Chief Legal Counsel

**Miles Community College Board of Trustees**

Sharon Wilcox	Chair
Bill Griffin	Vice-Chair
Garret McFarland	Secretary
Jan Wagner	Trustee
Susan Stanton	Trustee
Todd Steadman	Trustee
Tom Clarke	Trustee

**Administration**

Dr. Stefani Hicswa	President
Tad Torgeson	Dean of Administrative Services
Laura Bennett	Controller

\* Ex officio member of the Board of Regents of Higher Education

**MILES COMMUNITY COLLEGE  
YEARS ENDED JUNE 30, 2005 AND 2006**

**RECOMMENDATIONS**

**FINDING #06-01 – NON-BUDGETED FUNDS EXPENDITURE LIMITATIONS**

The College has a number of individual non-budgeted funds with deficit cash balances. According to Montana Code Annotated §20-9-210, the expenditures for a non-budgeted fund are limited to that fund's cash balance. The College requested a County Attorney's opinion regarding the definition of non-budgeted funds for community colleges. The County Attorney has not provided the College with a firm definition of non-budgeted funds for a community college.

**Recommendation**

For those funds defined as non-budgeted funds, the College should monitor expenditures closely and limit expenditures to the amount of cash available in that fund.

**FINDING #06-02 – EXIT CONFERENCES – STUDENT LOAN PROGRAM**

The College is required to conduct and document exit counseling for the Federal Family Educational Loan Program, pursuant to 34 CFR 682.04 and 685.303. In a sample of 27 files, 7 files did not contain the required documentation of exit conferences or documentation of an attempt to contact the student.

**Recommendation**

The College should develop a system to identify students that withdraw or leave school during the year who need exit conferences completed. As an additional safeguard to ensure the documentation is in the student's file, the College should develop a checklist to track when the required documentation for exit conferences has been placed in the student's file.

**PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

<u>Finding</u>	<u>Status</u>
<b>Finding #04-1 – Segregation of Duties</b>	Implemented
<b>Finding #04-2 – Non-Budgeted Funds Expenditures</b>	Not Implemented – Finding #06-01
<b>Finding #04-3 – Purchase of Property</b>	Implemented
<b>Finding #04-4 – Student Financial Aid</b> Exit Conferences	Partially Implemented

**Miles Community College  
Management's Discussion and Analysis  
Fiscal Years Ended June 30, 2005 and 2006**

## **Overview**

Miles Community College's Management Discussion and Analysis (MD&A) presents an overview of its financial condition and assists the reader in focusing on significant financial issues for the years ended June 30, 2005 and 2006. The discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes.

## **Financial and Other College Highlights**

- **Accreditation** – The College successfully completed the 10 year site visit by the Northwest Commission on Colleges and Universities and received continued accreditation.
- **Reorganization** – A fulltime Dean of Academic Affairs was added in FY 2006. This position was added in order to accommodate a greater emphasis on program development. A Student Accounts Technician/Cashier was a new position added in FY 2005. The implementation of this position has allowed the College a greater degree of segregation of duties, stricter cash management, increased focus on collection of receivables, and better customer service.
- **Union Negotiations** – The Miles Community College Faculty Association, a MEA-MFT faculty union, was organized during FY 2005. Miles Community College Faculty Association representatives have been meeting to negotiate a collective bargaining agreement with the Miles Community College Board of Trustees.
- **Program Development** – The Dean of Academic Affairs is working with businesses and faculty to develop programs needed in the area. A heavy equipment program will start during Fall Semester 2006 and the College is looking at several other new program offerings as well.
- **Distance Education programs** – With the declining population in eastern Montana, the College has implemented alternative methods such as interactive television and on-line classes to deliver its educational services. As a consequence of this increased focus on distance education, the Nursing Program has enhanced its ability to reach out to nursing students at three off campus sites, Billings, Glendive, and Sidney.
- **Enrollment (FTE)** – The College experienced near record high enrollment in FY 2005 with 513 resident full time equivalent (FTE) students. In FY 2006, the College experienced a 13% decrease in enrollment with 442 resident FTE. Management feels the major cause for the decrease in enrollment is due to the relatively strong local economy and recently low unemployment rates.

## **Using the Financial Statements**

The College's financial statements consist of the following three statements:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-For Public Colleges and Universities*. They differ significantly, in form and the accounting principles utilized, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the college, the results of operations, and cash flows of the college as a whole.

Significant changes to the financial statements are as follows:

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Capital assets are now depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.
- Assets and Liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Assets are presented in order of their relative liquidity.
- Revenues and Expenses are classified as operating or non-operating. “Operating” is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. “Non-operating” is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial “operating loss” in the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that State Appropriation and District Levy revenues must be reported as “non-operating”.
- Tuition and Fees are reported net of any Tuition Waivers that were applied directly to a student’s account.

The three new financial statements are designed to help the reader of the financial statements to determine whether the College’s overall financial condition has improved or deteriorated as a result of the current year’s financial activities. These financial statements present similar information to that disclosed in private sector financial statements.

## Statement of Net Assets

The Statement of Net Assets, which reports all assets and liabilities of the College, presents the financial position of the College at the end of the fiscal year. The net assets are simply the difference between total assets and total liabilities. The change in net assets during the fiscal

year is an indicator of the change in the overall financial condition of the College during the year. A summary of the Statement of Net Assets follows:

<b>ASSETS</b>	<b>6/30/2005</b>	<b>6/30/2006</b>
Total Current Assets	\$1,314,766	\$1,659,844
Total Noncurrent Assets	5,191,729	5,221,470
<b>TOTAL ASSETS</b>	<b>\$6,506,495</b>	<b>\$6,881,314</b>
<b>LIABILITIES</b>		
Total Current Liabilities	\$548,934	\$655,430
Total Noncurrent Liabilities	2,918,493	2,783,504
<b>TOTAL LIABILITIES</b>	<b>\$3,467,427</b>	<b>\$3,438,934</b>
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	\$2,251,442	\$2,481,853
Restricted, Expendable	236,214	328,225
Unrestricted	551,412	632,302
<b>TOTAL NET ASSETS</b>	<b>\$3,039,068</b>	<b>\$3,442,380</b>

**Current assets** include the College's cash; taxes, grants, student loan, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The \$345,078 increase from FY 2005 to FY 2006 was caused primarily by an increase in cash. An increase in student accounts receivable and grants receivable contributed to the increase in current assets as well.

**Noncurrent assets** primarily represent the College's Capital Assets less Accumulated Depreciation.

**Current liabilities** include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities increased by almost \$106,496 from FY 2005 to FY 2006, due largely to a state appropriation reversion that occurred in FY 2006 and did not occur in FY 2005.

**Noncurrent liabilities** primarily represent debt principal payments due after a one-year period. It also includes the amount of compensated absence liability. The most significant item affecting the College's noncurrent liabilities as debt related to the PE building. The Miles Community College Endowment provided funding for this building. The principal balance of \$72,454 was paid in full in FY 2006.

**Invested in capital assets, net of related debt** represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Total capital assets increased by \$226,497 from FY 2005 to FY 2006 mostly due to major upgrade of equipment in the Auto Mechanics lab.

**Restricted expendable net assets** represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.

**Unrestricted net assets** are funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management.

**Total net assets** increased by \$399,398 from FY 2005 to FY 2006, which indicates the overall financial position of the College has improved over that time period.

## **Statement of Revenue, Expenses, and Changes in Net Assets**

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year on a full accrual basis, which means revenues and expenses are recognized whey they were earned or incurred, regardless of when cash was received or paid. Results of operations are classified as either operating or nonoperating.

A summary of the Statement of Revenues, Expenses and Changes in Net Assets follows:

	<b>6/30/2005</b>	<b>6/30/2006</b>
Operating Revenues	\$4,679,142	\$4,515,878
Operating Expenses	7,000,769	6,919,516
<b>OPERATING LOSS</b>	<b><u>\$(2,321,627)</u></b>	<b><u>\$(2,403,638)</u></b>
Nonoperating Revenues (Expenses)	\$2,638,932	\$2,806,950
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b><u>\$317,305</u></b>	<b><u>\$403,312</u></b>
Net Assets, Beginning of Year	\$2,718,663	\$3,039,068
Capital asset donation	3,100	
Net Assets, End of Year	<u>\$3,039,068</u>	<u>\$3,442,380</u>

**Operating revenues** represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues decreased by \$163,264 from FY 2005 to FY 2006. This was mainly due to the 13% decrease in enrollment the College experienced over the same time period. Even though resident enrollment decreased, the College's auxiliary services (bookstore, food services, Centra, and residence halls) increased revenues by \$91,596 due to an increase in the number of students living on campus.

**Nonoperating revenue (expenses)** consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Nonoperating revenue

increased \$169,615 from FY 2005 to FY 2006. The major item affecting this change was an additional \$150,000 state appropriation for FY 2006 and FY 2007 given to the three community colleges during the 2005 legislative session.

**Increase (decrease) in net assets** represents the difference between total revenues and total expenses.

The following provides a comparative analysis of revenues and expenses for the two fiscal years:

SOURCE OF REVENUE	FISCAL YEAR 2005		FISCAL YEAR 2006		(DECREASE FY'05 VS FY'06)
	AMOUNT	PERCENT	AMOUNT	PERCENT	
<b>Operating Revenues</b>					
Tuition and Fees (Net)	\$1,365,749	18.34%	\$ 1,172,943	15.74%	\$ (192,806)
Federal Grants and Contracts	1,554,555	20.87%	1,349,529	18.10%	\$ (205,026)
State Grants and Contracts	320,151	4.30%	426,999	5.73%	\$ 106,848
Private and Local Grants and Contracts	275,764	3.70%	328,176	4.40%	\$ 52,412
Indirect Cost Recoveries	21,657	0.29%	8,826	0.12%	\$ (12,831)
Auxiliary Enterprise Activities	977,426	13.12%	1,069,022	14.34%	\$ 91,596
Other Operating Revenues	163,840	2.20%	160,383	2.15%	\$ (3,457)
<b>Total Operating Revenue</b>	<b>\$4,679,142</b>	<b>62.82%</b>	<b>\$ 4,515,878</b>	<b>60.58%</b>	<b>\$ (163,264)</b>
<b>Nonoperating Revenues</b>					
Interest Income	\$ 20,233	0.27%	\$ 35,571	0.48%	\$ 15,338
State Appropriations	1,431,405	19.22%	1,541,391	20.68%	\$ 109,986
District Levies	1,317,191	17.69%	1,361,482	18.26%	\$ 44,291
<b>Total Nonoperating Revenues</b>	<b>\$2,768,829</b>	<b>37.18%</b>	<b>\$ 2,938,444</b>	<b>39.42%</b>	<b>\$ 169,615</b>
<b>Total Revenue</b>	<b>\$7,447,971</b>	<b>100%</b>	<b>\$ 7,454,322</b>	<b>100%</b>	<b>\$ 6,351</b>

CATEGORY OF EXPENSE	AMOUNT	PERCENT	AMOUNT	PERCENT	FY'05 VS FY'06
<b>Operating Expenses</b>					
Salaries	\$2,807,535	39.37%	\$ 2,875,932	40.79%	\$ 68,397
Benefits	852,880	11.96%	907,265	12.87%	\$ 54,385
Travel	176,395	2.47%	165,083	2.34%	\$ (11,312)
Supplies	388,860	5.45%	431,759	6.12%	\$ 42,899
Contracted Service	413,978	5.81%	334,172	4.74%	\$ (79,806)
Rent and Lease	26,724	0.37%	33,876	0.48%	\$ 7,152
Repairs and Maintenance	13,011	0.18%	10,047	0.14%	\$ (2,964)
Advertising	31,990	0.45%	42,854	0.61%	\$ 10,864
Meetings and Dues	20,978	0.29%	26,011	0.37%	\$ 5,033
Utilities	156,840	2.20%	168,773	2.39%	\$ 11,933
Student Support	48,398	0.68%	53,988	0.77%	\$ 5,590
Communications	83,950	1.18%	91,828	1.30%	\$ 7,878
Software	21,711	0.30%	16,054	0.23%	\$ (5,657)
Unassigned	90,023	1.26%	84,741	1.20%	\$ (5,282)
Scholarships and Grants	997,546	13.99%	893,072	12.67%	\$ (104,474)
Insurance	68,180	0.96%	57,379	0.81%	\$ (10,801)
Indirect Costs	15,655	0.22%	3,125	0.04%	\$ (12,530)
Food for Resale	115,441	1.62%	127,753	1.81%	\$ 12,312
Items for Resale	232,320	3.26%	194,372	2.76%	\$ (37,948)
Other Operating Expenses	185,562	2.60%	143,002	2.03%	\$ (42,560)
Depreciation Expense	252,792	3.55%	258,430	3.67%	\$ 5,638
<b>Total Operating Expenses</b>	<b>\$7,000,769</b>	<b>98.18%</b>	<b>\$ 6,919,516</b>	<b>98.14%</b>	<b>\$ (81,253)</b>
<b>Nonoperating Expenses</b>					
Interest Payments	\$ 129,897	1.82%	\$ 131,494	1.86%	\$ 1,597
Other Nonoperating Expenses	-	0.00%	-	0.00%	-
<b>Total Nonoperating Expenses</b>	<b>\$ 129,897</b>	<b>1.82%</b>	<b>\$ 131,494</b>	<b>1.86%</b>	<b>\$ 1,597</b>
<b>Total Expenses</b>	<b>\$7,130,666</b>	<b>100%</b>	<b>\$ 7,051,010</b>	<b>100%</b>	<b>\$ (79,656)</b>

Comments about specific revenue and expense items are:

- **Tuition and Fees Revenues** – Decreases in enrollment contributed to the 14% decrease from FY 2005 to FY 2006.
- **Private and Local Grants and Contracts** – During FY 2006 the College received a \$64,000 gift from the Miles Community College Endowment Corporation to replace bleachers in the Centra gymnasium.
- **Expenses (general comment):** Overall expenses decreased \$79,656 from FY 2005 to FY 2006. Overall revenues increased \$6,351 which has allowed the college to cure the deficit balances in some of our Non-General Funds bringing us closer to being in compliance with state regulations regarding non-budgeted funds.

## STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides information about the College's sources and uses of cash during the fiscal year. This statement aids in assessing the College's ability to meet obligations and commitments as they become due, their ability to generate future cash flows and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method," which focuses on those transactions that either provided or used cash during the fiscal year.

A summary of the Statement of Cash Flows follows:

CASH FLOW CATEGORY	6/30/2005	6/30/2006
Cash Provided (Used) by:		
Operating Activities	\$ (2,028,801)	\$ (2,112,311)
Nonoperating Activities	2,777,589	2,909,498
Capital Financing Activities	(337,683)	(620,335)
Investing Activities	20,233	35,571
Net Increase (Decrease) in Cash	\$431,338	\$212,423
 Cash and Cash Equivalents, Beginning of Year	 \$514,931	 \$946,268
Cash and Cash Equivalents, End of Year	<u>\$946,269</u>	<u>\$1,158,691</u>

## DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – The College will continue to experience challenges due to the declining population in our service area, and we will continue to explore opportunities to grow enrollment.
- **President** – Dr. Stefani Hicswa was hired as the new president of Miles Community College and she began her tenure in July of 2006.
- **State Funding** – State funding has not kept pace with increased educational costs, and we expect this trend to continue into the future. We will continue to look for alternate sources of funding such as state and federal grants, business partnerships, and partnerships with other educational institutions. During the 2005 legislative session, the legislature recognized a possible deficiency in the community college funding formula. At that time, the legislature commissioned an interim legislative study to look at possible changes to the funding formula. That study has been completed and a new fixed/variable cost funding formula has been created. The Legislative Finance Committee has endorsed the new funding formula by passing a bill draft that would put the formula into Montana statute. The bill draft will be introduced during the 2007 legislative session. Our hope is this will result in stabilizing state funding in the future.
- **Faculty and Staff** – The ability to attract and keep high quality faculty and staff because of our salary schedule is a concern of the College.

- **Shared Governance** - Working meetings will be held monthly to facilitate ideas to improve the college experience for students, faculty, and staff. Administration and each section of the college are working together on the fiscal budgeting process.
- **Student Records Management System** – The College has implemented a web-based student management records system. This is cutting edge technology that will allow us to provide exceptional customer service to our students in a timely matter. It will also provide management with accurate and timely student information on which decisions can be made. The next step in the implementation is to provide student access to the system. This will allow students to register, review grades, pay charges, access financial reports, and print out unofficial transcripts, all on-line.
- **Federal Appropriation** – In an effort to access additional sources of funding, the College is actively pursuing several federal appropriations. The Rural Frontier Pathways to Careers in Healthcare is a proposed federal appropriation that would allow the College to partnership with other educational institutions and healthcare facilities to provide training for several different careers in healthcare. It has currently passed the Senate Appropriations Committee and is waiting for a vote by the full Senate.



## INDEPENDENT AUDITOR'S REPORT

Legislative Audit Committee  
Of the Montana State Legislature

We have audited the accompanying basic financial statements of Miles Community College, Miles City, Montana, as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements of the Miles Community College Endowment have not been audited, and we were not engaged to audit the Miles Community College Endowment financial statements as part of our audit of the College's basic financial statements. Miles Community College Endowment's financial activities are included in the College's basic financial statements as a discretely presented component unit.

Because Miles Community College Endowment's financial statements have not been audited, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion of the financial statements of the discretely presented component unit of Miles Community College, Miles City, Montana, as of and for the years ended December 31, 2004 and 2005.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities for Miles Community College, Miles City, Montana, and the respective changes in financial position, and, where applicable, cash flows thereof for the years ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 1, 2006, on our consideration of the College's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an

integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The managements' discussion and analysis on pages vi-xiii and the functional classification of operating expenses on pages 24-25 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Schedule of Student Financial Aid Modified Statement of Cash Receipts and Disbursements on pages 26-27, the Schedule of Expenditures – Student Financial Assistance Programs on page 28, and the Schedule of Enrollment Statistics on page 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedules of expenditures of Federal Awards on pages 30-31 are presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CHMS, PC

CHMS, P.C.  
Certified Public Accountants

September 1, 2006

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**STATEMENTS OF NET ASSETS**  
**JUNE 30, 2005 AND 2006**

<b>ASSETS</b>	<b>2005</b>	<b>2006</b>
<b>Current Assets</b>		
Cash and Cash Equivalents - Note C	\$ 910,104	\$ 1,110,970
Taxes Receivable - Note A	67,178	57,397
Grants Receivable - Note A	88,313	165,369
Student Loan Receivable	50,213	37,112
Accounts Receivable - Note A	111,762	215,179
Prepaid Expense	18,699	24,216
Inventory - Note A	68,497	49,601
Total Current Assets	1,314,766	1,659,844
<b>Noncurrent Assets</b>		
Restricted Cash and Cash Equivalents - Note C	36,165	47,721
Capital Assets - Note D	7,998,778	8,246,938
Less: Accumulated Depreciation	(2,843,214)	(3,073,189)
Total Noncurrent Assets	5,191,729	5,221,470
<b>Total Assets</b>	6,506,495	6,881,314
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	12,845	247,048
Accrued Payroll	187,950	153,410
Deferred Revenue - Tuition and Fees	46,820	49,261
Deferred Revenue - Grants and Contracts	28,398	31,274
Dormitory Deposits	16,700	22,565
Assets Held in Trust for Student Organizations	47,554	44,397
Current Portion of Compensated Absences Payable Note F	8,383	7,963
Current Portion of Long-Term Obligations - Note E	200,284	99,512
Total Current Liabilities	548,934	655,430
<b>Noncurrent Liabilities</b>		
Noncurrent Compensated Absences Payable - Note F	214,655	191,120
Noncurrent Portion of Long-Term Obligations - Note E	2,703,838	2,592,384
Total Noncurrent Liabilities	2,918,493	2,783,504
<b>Total Liabilities</b>	3,467,427	3,438,934
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	2,251,442	2,481,853
Restricted for:		
Expendable:		
Student Loans	63,789	52,884
Debt Service	36,165	47,721
Scholarships, Research, Instruction, and Other	136,260	227,620
Unrestricted	551,412	632,302
<b>Total Net Assets</b>	\$ 3,039,068	\$ 3,442,380

See notes to the financial statements.

**MILES COMMUNITY COLLEGE ENDOWMENT  
MILES CITY, MONTANA  
STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2004 AND 2005  
(UNAUDITED)**

**ASSETS**

	<b>2004</b>	<b>2005</b>
Cash and cash equivalents	\$ 144,114	\$ 239,401
Investments	428,783	458,513
Other Assets	<u>90,787</u>	<u>32,324</u>
<b>Total Assets</b>	<b>\$ <u>663,684</u></b>	<b>\$ <u>730,238</u></b>

**NET ASSETS**

Unrestricted net assets	498,384	557,131
Temporarily restricted net assets	-	-
Permanently restricted net assets	<u>165,300</u>	<u>173,107</u>
<b>Total Net Assets</b>	<b>\$ <u>663,684</u></b>	<b>\$ <u>730,238</u></b>

See notes to the financial statements.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2005 AND 2006**

<b>REVENUES</b>		<b>2005</b>	<b>2006</b>
Operating Revenues			
Tuition and Fees (net of scholarship allowance of \$351,470 and \$401,370, respectively)	\$ 1,365,749	\$ 1,172,943	
Federal Grants and Contracts	1,554,555	1,349,529	
State Grants and Contracts	320,151	426,999	
Private and Local Grants and Contracts	275,764	328,176	
Indirect Cost Recoveries	21,657	8,826	
Auxiliary Activities:			
Bookstore (net of book buybacks and returns of \$57,269 and \$51,986, respectively)	257,645	230,458	
Food Services	238,309	262,244	
Centra	178,747	218,468	
Big Sky Dorm	302,725	357,852	
Other Operating Revenues	163,840	160,383	
Total Operating Revenues	<u>4,679,142</u>	<u>4,515,878</u>	
EXPENSES			
Operating Expenses			
Salaries	2,807,535	2,875,932	
Benefits	852,880	907,265	
Travel	176,395	165,083	
Supplies	388,860	431,759	
Contracted Services	413,978	334,172	
Rent and Lease	26,724	33,876	
Repairs and Maintenance	13,011	10,047	
Advertising	31,990	42,854	
Meetings and Dues	20,978	26,011	
Utilities	156,840	168,773	
Student Support	48,398	53,988	
Communications	83,950	91,828	
Software	21,711	16,054	
Unassigned	90,023	84,741	
Scholarships and Grants	997,546	893,072	
Insurance	68,180	57,379	
Indirect Costs	15,655	3,125	
Food for Resale	115,441	127,753	
Items for Resale	232,320	194,372	
Other Operating Expenses	185,562	143,002	
Depreciation Expense	252,792	258,430	
Total Operating Expenses	<u>7,000,769</u>	<u>6,919,516</u>	
Operating Loss	<u>(2,321,627)</u>	<u>(2,403,638)</u>	
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Interest Income	20,233	35,571	
State Appropriations	1,431,405	1,541,391	
District Levies	1,317,191	1,361,482	
Interest Payments	(129,897)	(131,494)	
Net Nonoperating Revenues	<u>2,638,932</u>	<u>2,806,950</u>	
Income Before Other Revenues	317,305	403,312	
Capital Asset Donation	3,100	-	
<b>INCREASE IN NET ASSETS</b>			
Net Assets, Beginning of Year	<u>2,718,663</u>	<u>3,039,068</u>	
Net Assets, End of Year	<u>\$ 3,039,068</u>	<u>\$ 3,442,380</u>	

See notes to the financial statements.

**MILES COMMUNITY COLLEGE ENDOWMENT  
MILES CITY, MONTANA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2004  
(UNAUDITED)**

	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>Revenues:</b>			
Pledges and Other Public Support	\$ 88,619	-	\$ 923
Investment Income	7,845	-	-
Net Realized and Unrealized Gain (Loss) on Investments	(26,485)	-	6,690
Endowment	-	-	63,396
<b>Total Revenues</b>	<b>69,979</b>	<b>-</b>	<b>71,009</b>
<b>Expenses</b>			
Program services			
Program Disbursements	50,330	-	-
Scholarship Awards	13,871	-	-
<b>Total Program Services Expense</b>	<b>64,201</b>	<b>-</b>	<b>-</b>
Operating Expenses			
General and Administrative	1,500	-	-
Professional Fees	450	-	-
<b>Total Operating Expenses</b>	<b>1,950</b>	<b>-</b>	<b>-</b>
Change in net assets	3,828	-	71,009
Net assets, beginning of year	494,556	-	94,291
<b>Net assets, end of year</b>	<b>\$ 498,384</b>	<b>\$ -</b>	<b>\$ 165,300</b>

See notes to the financial statements.

**MILES COMMUNITY COLLEGE ENDOWMENT  
MILES CITY, MONTANA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005  
(UNAUDITED)**

	Unrestricted	Temporarily Restricted	Permanently Restricted
<b>Revenues:</b>			
Pledges and Other Public Support	\$ 90,095	\$ -	\$ 1,383
Investment Income	15,518	-	-
Net Realized and Unrealized Gain (Loss) on investments	8,928	-	(4,481)
Endowment	-	-	10,905
<b>Total Revenues</b>	<b>114,541</b>	<b>-</b>	<b>7,807</b>
<b>Expenses</b>			
Program services			
Program Disbursements	23,500	-	-
Scholarship Awards	16,077	-	-
<b>Total Program Services Expense</b>	<b>39,577</b>	<b>-</b>	<b>-</b>
Operating Expenses			
Fundraising efforts			
General and Administrative	15,767	-	-
Professional Fees	450	-	-
<b>Total Operating Expenses</b>	<b>16,217</b>	<b>-</b>	<b>-</b>
Change in net assets	58,747	-	7,807
Net assets, beginning of year	498,384	-	165,300
<b>Net assets, end of year</b>	<b>\$ 557,131</b>	<b>\$ -</b>	<b>\$ 173,107</b>

See notes to the financial statements.

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2005 AND 2006**

	2005	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and Fees	\$ 1,347,117	\$ 1,071,967
Grants and Contracts	2,132,497	2,030,524
Payments to Employees	(2,647,397)	(2,934,427)
Payments for Benefits	(852,880)	(907,265)
Payments to Suppliers	(1,774,283)	(1,368,347)
Payments for Utilities	(156,840)	(168,773)
Payments for Scholarships and Fellowships	(997,546)	(893,072)
Collection of Loans to Students	2,542	13,101
Auxiliary Enterprise Charges		
Resident Halls	308,175	363,717
Bookstore	257,645	230,458
Food Services	238,309	262,244
Centra	178,747	218,468
Other Receipts (Payments)	(64,887)	(30,906)
NET CASH USED BY OPERATING ACTIVITIES	<u>(2,028,801)</u>	<u>(2,112,311)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	1,431,405	1,541,391
District Levies	1,331,636	1,371,264
Transactions of Student Organizations	14,548	(3,157)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>2,777,589</u>	<u>2,909,498</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from Capital Debt	35,064	-
Purchases of Capital Assets	(150,201)	(276,615)
Principal Paid on Capital Debt	(92,649)	(212,226)
Interest Paid on Capital Debt	(129,897)	(131,494)
NET CASH USED BY CAPITAL FINANCING ACTIVITIES	<u>(337,683)</u>	<u>(620,335)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest Income	20,233	35,571
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>20,233</u>	<u>35,571</u>
Net Increase in Cash and Cash Equivalents	431,338	212,423
Cash and Cash Equivalents, Beginning of Year	514,931	946,268
Cash and Cash Equivalents, End of Year	<u>\$ 946,269</u>	<u>\$ 1,158,691</u>
<b>Reconciliation to Statement of Net Assets:</b>		
Cash and Cash Equivalents	910,104	1,110,970
Restricted Cash and Cash Equivalents	36,165	47,721
Total Cash and Cash Equivalents	<u>\$ 946,269</u>	<u>\$ 1,158,691</u>
<b>RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (2,321,627)	\$ (2,403,638)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation Expense	252,792	258,430
Changes in Net Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	8,598	(90,316)
(Increase) Decrease in Grants Receivable	(47,141)	(77,056)
(Increase) Decrease in Prepaid Expense	8,685	(5,517)
(Increase) Decrease in Inventory	(14,115)	18,896
Increase (Decrease) in Accounts Payable	28,779	207,969
Increase (Decrease) in Deferred Revenue	28,398	2,876
Increase (Decrease) in Compensated Absences Payable	26,830	(23,955)
Net Cash Used By Operating Activities	<u>\$ (2,028,801)</u>	<u>\$ (2,112,311)</u>

See notes to the financial statements.

**MILES COMMUNITY COLLEGE ENDOWMENT  
MILES CITY, MONTANA  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2005  
(UNAUDITED)**

	<u>2004</u>	<u>2005</u>
<b>Cash Flows From Operating Activities</b>		
Change in Net Assets	\$ 74,837	\$ 66,554
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Net Realized and Unrealized Investment Gains (Losses)	19,795	(4,447)
(AIncrease) Decrease in Accounts Receivable	<u>52,780</u>	<u>58,464</u>
Net Cash Flows from Operating Activities	147,412	120,571
<b>Cash Flows From Investing Activities</b>		
Purchase of Investments	<u>(129,866)</u>	<u>(25,284)</u>
Increase in Cash and Cash Equivalents	17,546	95,287
Cash and Cash Equivalents, Beginning of Period	<u>126,568</u>	<u>144,114</u>
Cash and Cash Equivalents, End of Period	<u>\$ 144,114</u>	<u>\$ 239,401</u>

See notes to the financial statements.

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Miles Community College, a Community College District (the College), is presented to assist in understanding the College's financial statements. The financial statements and notes are representations of the College's management, which is responsible for their integrity and objectivity.

**Reporting Entity**

Miles Community College is a community college district which has received full accreditation by the Northwest Association of Schools and Colleges. The College is managed by a Board of Trustees, each member of which is elected in district-wide elections. The college administration is appointed by and responsible to the Board of Trustees.

The County government of Custer County provides substantial services to the College. Taxes are levied and collected by the County. Cash is maintained and invested by the County Treasurer. The County does not significantly influence the operations of the College; thus, the College is treated as a separate and independent unit of local government.

The College, for financial purposes, includes all funds, account groups, organizations and boards for which the College is financially accountable, and other organizations for which the nature and significance of the relationship are such that the exclusion would cause the College's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a majority of the governing body, and by the imposition of will or the potential for financial benefit or burden.

**Financial Statements**

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations).

In June 1999, GASB unanimously approved Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". GASB Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities" amends Statement No. 34 to address the accounting and financial reporting issues related to public colleges and universities. Certain significant changes in the Statement include the following:

A Management's Discussion and Analysis (MD&A) section providing an analysis of the College's overall financial position and results of operations.

A change in the fund-group financial statements to an entity-wide perspective.

Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Net Assets, and a Statement of Cash Flows. All significant inter-entity transactions have been eliminated upon consolidation.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting**

For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the College's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Grant revenues are reported only to the extent that they have been expended for their restricted purposes.

The College had the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The College has elected not to apply FASB pronouncements issued after the applicable date.

**Cash and Cash Equivalents**

The College considers all investments to be highly liquid, and, therefore, cash equivalents.

**Investments**

Investments are carried at cost, which approximates market value. Investments in the State Short-term Investment Pool (STIP) may include certain types of derivatives. A derivative is any "contract whose value depends on, or derives from, the value of an underlying asset, reference rate or index." The STIP portfolio includes asset-backed securities and variable-rate (floating rate) instruments. (See Note C on Investment Risk Categories.)

**Taxes Receivable**

The College records taxes receivable for property taxes that have been assessed but have not yet been collected. These taxes receivable are recorded as deferred revenue in the year assessed, and recorded as revenue in the year collected.

**Accounts Receivable**

Accounts receivable consists primarily of student tuition and fees.

**Grants Receivable**

Grants receivable are for expenditures made on grants for which reimbursement has not been received.

**Inventories**

Inventories consist mainly of bookstore supplies and are valued at cost on the first-in, first-out method.

**Use of Estimates**

The preparation of these general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from these estimates.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Noncurrent Assets**

Cash that is externally restricted as to its use is classified as a noncurrent asset in the accompanying statement of net assets.

**Capital Assets**

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, curbs, etc.). Capital assets are defined as assets with an individual initial cost of more than \$2,500 and a useful life in excess of one year.

All purchased fixed assets are valued at cost where historical records are available and at estimated historical costs where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Property, plant, and equipment is depreciated under the straight-line method over the following estimated useful lives:

	<u>Years</u>		<u>Years</u>
Buildings	50	Equipment	5 - 20
Building Improvements	50	Library Books	5

**Donated Services**

The value of donated services are not recognized, since the types of services rendered do not create or enhance the College's non-financial assets, nor do they require specialized skills.

**Compensated Absences**

As required by law, employees are allowed to accumulate earned but unused vacation and sick leave benefits. Unused vacation benefits are 100% payable upon termination. Unused sick leave benefits are payable at 25% of the unused portion upon termination. This liability has been reported as a liability and an expense in the financial statements.

**Net Assets**

The College's net assets are categorized as follows:

**Invested in capital assets, net of related debt** - capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted, expendable** - net assets whose use by the College is subject to externally imposed stipulations that can be fulfilled by actions of the College pursuant to those stipulations or that expire by the passage of time.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Restricted, nonexpendable** - net assets subject to externally imposed stipulations that the College maintain those assets permanently.

**Unrestricted** - net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management, the Board of Trustees, or the Board of Regents, or may otherwise be restricted by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for general operating purposes and capital asset acquisition.

**Revenues**

The College has classified its revenues as either operating or nonoperating according to the following criteria:

**Operating Revenue** - includes activities that have the characteristics of exchange transactions, including student tuition and fees, net of scholarship allowances and discounts; sales and services of auxiliary services; and most grants and contracts.

**Nonoperating Revenue** - nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting", and GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments". Types of revenue sources that fall into this classification are state appropriations and investment income.

**Use of Restricted Revenues**

When the College maintains both restricted and unrestricted funds for the same purpose, the order of use of such funds is determined on a case by case basis. Restricted funds remain classified as restricted until they are expended.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses and Change in Net Assets. Scholarship discounts and allowances are generated by the difference between the stated charge of goods and services provided by the College, and the amount that is paid by the students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the College's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the College has recorded a scholarship discount and allowance.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE B - LOCAL APPROPRIATIONS**

All property taxes are collected by the Treasurer of Custer County, Montana. Property taxes attach as an enforceable lien on property as of January 1st and are levied on the 2nd Monday in August. They are due in two equal installments on November 30th, and May 31st, following the levy date.

The tax levies for the College were as follows:

	<u>Number of Mills</u> Year ended 6/30/2005	<u>Number of Mills</u> Year ended 6/30/2006
Mandatory County Levy	55.13	56.44
Adult Education Levy	1.15	1.23
Retirement Fund Levy	<u>23.00</u>	<u>24.37</u>
Total	<u>79.28</u>	<u>82.04</u>

The value of one mill was \$14,166 for 2005 and \$14,096 for 2006.

**NOTE C - CASH AND INVESTMENTS**

Cash and investments as of June 30, 2005, consist of the following:

		12/31/2004 Component Unit
Cash on Hand	\$ 11,790	\$
Demand Deposit Accounts	13,081	144,114
Invested in the County Investment Pool	921,398	
Invested in Mutual Funds, Equity Securities and Corporate Debt Securities		428,783
Total Cash and Investments	<u>\$ 946,269</u>	<u>\$ 572,897</u>

Cash and investments as of June 30, 2006, consist of the following:

		12/31/2005 Component Unit
Cash on Hand	\$ 9,190	\$ -
Demand Deposit Accounts	15,278	239,401
Invested in the County Investment Pool	1,134,223	-
Invested in Mutual Funds, Equity Securities and Corporate Debt Securities		458,513
Total Cash and Investments	<u>\$ 1,158,691</u>	<u>\$ 697,914</u>

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2006**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

The College follows the practice of pooling cash and investments with the Custer County Treasurer, except for student loan fund deposits and petty cash, which are held in demand deposit accounts at local financial institutions.

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible investments.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair value of the College's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment as of June 30.

	<u>2005</u>	<u>Maturity Date</u>
Custer County Investment Pool	\$ <u>921,398</u>	2.38 years average
	<u>2006</u>	<u>Maturity Date</u>
Custer County Investment Pool	\$ <u>1,134,223</u>	0.70 years average

No interest rate risk disclosure is made for the investments of the Component Unit.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Custer County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

**Concentration of Credit Risk**

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. There are no investments in any one issuer that represent 5% or more of total College investments.

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2006**

**NOTE C - CASH AND INVESTMENTS (CONTINUED)**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Custer County government is considered to have \$100,000 FDIC coverage for demand deposits and \$100,000 FDIC coverage for time and savings deposits in each bank in the state.

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2005 or June 30, 2006.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Custer County Investment Pool).

**Investment in the Custer County Investment Pool**

The College participates in the Custer County Investment Pool. Information pertaining to the County's investment pool can be obtained from the County's annual report. The investment pool is not registered with the Securities and Exchange Commission. The pool is managed by the Custer County Treasurer, who reports to the Custer County Commissioners. The pool unit value is fixed at \$1 per share for purchases and redemptions. Participants may buy and sell fractional shares.

**Foreign Currency Risk**

The Colleges do not have any foreign currency risk as the College does not own any foreign currency.

**Restricted Cash**

Restricted cash in the plant funds is for the required loan reserve for the Rural Development loan. This restricted cash is held by the Custer County Treasurer, and is not required by the loan document to be in a separate account. Restricted cash as of June 30, 2005, and June 30, 2006 was \$36,165 and \$47,721, respectively.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE D - CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2005, were as follows:

	Balance 6/30/2004	Additions/ Adjustments	Retirements/ Reclassifications	Balance 6/30/2005
Land	\$ 206,412	\$ -	\$ -	\$ 206,412
Buildings	6,786,506	-	-	6,786,506
Equipment	765,511	139,119	99,692	804,938
Library Inventory	446,567	14,183	359,520	101,230
Software	-	99,692	-	99,692
<b>Total</b>	<b>8,204,996</b>	<b>252,994</b>	<b>459,212</b>	<b>7,998,778</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	2,160,459	135,730	-	2,296,189
Equipment	373,678	81,851	-	455,529
Library Inventory	415,805	15,272	359,520	71,557
Software	-	19,939	-	19,939
<b>Total Accumulated Depreciation</b>	<b>2,949,942</b>	<b>252,792</b>	<b>359,520</b>	<b>2,843,214</b>
<b>Capital Assets, Net</b>	<b>\$ 5,255,054</b>	<b>\$ 202</b>	<b>\$ 99,692</b>	<b>\$ 5,155,564</b>

Capital asset balances and activity for the year ended June 30, 2006, were as follows:

	Balance 6/30/2005	Additions/ Adjustments	Retirements/ Reclassifications	Balance 6/30/2006
Land	\$ 206,412	\$ -	\$ -	\$ 206,412
Buildings	6,786,506	-	-	6,786,506
Equipment	804,938	257,013	-	1,061,951
Software	99,692	-	-	99,692
Library inventory	101,230	19,602	28,455	92,377
<b>Total</b>	<b>7,998,778</b>	<b>276,615</b>	<b>28,455</b>	<b>8,246,938</b>
<b>Less Accumulated Depreciation for:</b>				
Buildings	2,296,189	135,730	-	2,431,919
Equipment	455,529	87,247	-	542,776
Software	19,939	19,938	-	39,877
Library Inventory	71,557	15,515	28,455	58,617
<b>Total Accumulated Depreciation</b>	<b>2,843,214</b>	<b>258,430</b>	<b>28,455</b>	<b>3,073,189</b>
<b>Capital Assets, Net</b>	<b>\$ 5,155,564</b>	<b>\$ 18,185</b>	<b>\$ -</b>	<b>\$ 5,173,749</b>

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE E - LONG-TERM OBLIGATIONS**

Long-term obligations consists of several different mortgages payable, as described below. Changes in long-term obligations during 2005 were as follows:

	Balance 6/30/2004	Debt Issued	Principal Payment	Balance 6/30/2005
Miles Community College				
Endowment	\$ 72,454	\$ -	\$ -	\$ 72,454
Stockman Bank	328,604	-	17,512	311,092
USDA Rural Development	309,817	-	16,412	293,405
Department of Housing and Urban Development	66,400		3,800	62,600
Miles Community College				
Endowment	29,333			29,333
First Interstate Bank	369,273		8,912	360,361
Montana Board of Investments	286,882		26,701	260,181
USDA Rural Development	1,498,944		14,257	1,484,687
GMAC #1		12,057	1,764	10,293
GMAC #2		23,007	3,291	19,716
	<hr/> <u>\$ 2,961,707</u>	<hr/> <u>\$ 35,064</u>	<hr/> <u>\$ 92,649</u>	<hr/> <u>\$ 2,904,122</u>

Changes in long-term obligations during 2006 were as follows:

	Balance 6/30/05	Debt Issued	Principal Payment	Balance 6/30/2006
Miles Community College				
Endowment	\$ 72,454	\$ -	\$ 72,454	\$ -
Stockman Bank	311,092	-	19,541	291,551
USDA Rural Development	293,405		17,410	275,995
Department of Housing and Urban Development	62,600		11,600	51,000
Miles Community College				
Endowment	29,333		29,333	
First Interstate Bank	360,361	-	10,421	349,940
Montana Board of Investments	260,181	-	27,468	232,713
USDA Rural Development	1,484,687	-	17,423	1,467,264
GMAC #1	10,293	-	2,300	7,993
GMAC #2	19,716	-	4,276	15,440
	<hr/> <u>\$ 2,904,122</u>	<hr/> <u>\$ -</u>	<hr/> <u>\$ 212,226</u>	<hr/> <u>\$ 2,691,896</u>

The note payable to the Department of Housing and Urban Development was in the original amount of \$205,541 and will be paid off on July 1, 2012. This note is payable in semiannual installments on January 1st and July 1st of each year. Interest is payable at 3% per annum. There is no security for this loan.

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2006**

**NOTE E - LONG-TERM OBLIGATIONS (CONTINUED)**

The note payable to Miles Community College Endowment was in the original amount of \$458,299. There is no interest payable on this note. This note is being repaid from 1/3 of the student building fees collected, until such time as the deficit in the Building Repayment Fund has been eliminated. Once the deficit has been eliminated, the entire amount of the student building fees will be paid to Miles Community College Endowment. There is no security for this loan. The note was paid in full during the year ended June 30, 2006.

The note payable to Stockman Bank of Montana was in the original amount of \$400,000. This note is payable in monthly installments of \$3,387 on the 23rd day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2006 was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

The first note payable to the USDA Rural Development was in the original amount of \$400,000. This note is payable in semi-annual installments of \$15,936 due on March 23rd and September 23rd of each year. This note bears interest at 5.0% per annum. This note is secured by two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

The note payable to Miles Community College Endowment was in the original amount of \$44,000. There was no interest payable on this note. This note was repaid from the Bus Operations fund on a quarterly basis. Final payment on this note was paid on April 1, 2006.

The mortgage payable to First Interstate Bank was in the original amount of \$370,000. This mortgage is payable in monthly installments of \$2,736 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 6.39%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2024. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

The note payable to the Montana Board of Investments was in the original amount of \$300,000 and will be paid off on August 15, 2013. This note is payable in semiannual installments on August 15th and February 15 of each year. Interest is payable at 2.85% per annum. This note is secured by a deed of trust on the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College.

The second note payable to the USDA Rural Development was in the original amount of \$1,500,000. This note is payable in monthly installments of \$6,630 on the 18th day of each month. This note bears interest at 4.375% per annum. This note is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on May 18, 2044.

The first note payable to GMAC was in the original amount of \$12,057. This note is payable in monthly installments of \$216 on the 21st day of each month. This note bears interest at 2.90% per annum. This note is secured by a 2004 Chevrolet Impala. Final payment of this note is due in September 2009.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE E - LONG-TERM OBLIGATIONS (CONTINUED)**

The second note payable to GMAC was in the original amount of \$23,007. This note is payable in monthly installments of \$444 on the 21st day of each month. This note bears interest at 5.90% per annum. This note is secured by a 2003 Park Avenue. Final payment on this note is due in September 2009.

Notes payable maturities are as follows:

Year	Principal	Interest
2007	\$ 99,512	\$ 131,419
2008	108,617	126,192
2009	114,088	120,679
2010	113,399	114,978
2011	117,506	109,236
2012-2016	572,771	452,411
2017-2021	338,454	318,665
2022-2026	252,291	242,842
2027-2031	203,817	193,983
2032-2036	253,553	144,247
2037-2041	315,427	82,373
2042-2043	202,461	13,617
Total	<u>\$ 2,691,896</u>	<u>\$ 2,050,642</u>

**NOTE F - COMPENSATED ABSENCES PAYABLE**

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable upon termination, were as follows:

June 30, 2005:

	Balance 6/30/2004	Increase (Decrease)	Balance 6/30/2005
Vacation and Sick Leave	\$ <u>196,208</u>	\$ <u>26,830</u>	\$ <u>223,038</u>

June 30, 2006:

	Balance 6/30/2005	Increase (Decrease)	Balance 6/30/2006
Vacation and Sick Leave	\$ <u>223,038</u>	\$ <u>(23,955)</u>	\$ <u>199,083</u>

**NOTE G - RETIREMENT PLANS**

The College participates in two state-wide, multiple employer, cost-sharing retirement plans which cover all employees, except some substitute and part-time, non-teaching employees. The Teachers' Retirement System (TRS) covers certified teaching employees, and the Public Employee Retirement System (PERS) covers non-teaching employees. The plans are established by State law and are administered by the Department of Administration of the State of Montana. The plans provide retirement, disability, and death benefits to plan members and beneficiaries.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2005 AND 2006**

**NOTE G - RETIREMENT PLANS (CONTINUED)**

Both plans issue publicly available annual reports that include financial statements and required supplemental information for the plans. The reports for the Teachers' Retirement System can be obtained at P.O. Box 200139, 1500 Sixth Ave., Helena, MT 59620-0139. The reports for the Public Employees Retirement System can be obtained at P.O. Box 200131, 1712 Ninth Ave., Helena, MT 59620-0131. The financial statements for the Public Employees Retirement System include activity for a defined benefit and a defined contribution retirement plan. The defined contribution plan is available to all active members starting July 1, 2002. The assets of one retirement plan cannot be commingled with those of another plan.

Contribution rates, expressed as a percentage of covered payroll, which are determined by State law, were as follows at June 30, 2005 and 2006:

	<u>Employer</u>	<u>Employee</u>	<u>Total</u>
TRS	7.47%	7.15%	14.62%
PERS	6.80%	6.90%	13.70%

The amounts contributed by both the employees and the College for the prior three years ended June 30, were as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
TRS	\$ 246,653	\$ 201,310	\$ 238,452
PERS	<u>171,214</u>	<u>165,096</u>	<u>146,979</u>
<b>Total</b>	<b>\$ 417,867</b>	<b>\$ 366,406</b>	<b>\$ 385,431</b>

The State of Montana contributes .10% of the employees' wages covered by PERS, and .11% of the employees' wages covered by TRS, which are considered on-behalf payments. The College did not record this contribution in its financial statements, as required by generally accepted accounting principles.

**NOTE H - RISK MANAGEMENT**

The College faces a considerable number of risks of loss, including a) damage to and loss of property and contents, b) employee torts, c) professional liability i.e. errors and omissions, d) environmental damage, and e) workers' compensation, i.e. employee injuries. A variety of methods is used to provide insurance for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee torts, and professional liabilities. Coverage limits and the deductibles on the commercial policies have stayed relatively constant for the last several years, except for property and content coverage where the guaranteed values have been increased to approximate replacement cost of the assets. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2006**

**NOTE I - RELATED PARTY TRANSACTIONS**

Miles Community College Endowment Corporation is a private nonprofit organization with relations to Miles Community College. As discussed in Note K, this entity is considered a component unit of Miles Community College.

During the year ended June 30, 2003, Miles Community College Endowment Corporation loaned \$44,000 to Miles Community College for the purchase of a bus. Details of this note payable are described in Note E.

During the year ended June 30, 2005, the Miles Community College Endowment Corporation provided to the College \$67,279 in scholarship and other gift support. During the year ended June 30, 2006, the Miles Community College Endowment provided the College with \$172,682 in scholarship and other gift support.

**NOTE J - DEFICIT NET ASSETS**

Three auxiliary funds have deficit net asset balances during the audit period. The deficit net asset balances are as follows for the year ended June 30,

	<u>2005</u>	<u>2006</u>
Cafeteria	\$ 16,044	-
Centra	74,677	100,359
Big Sky Dorm	5,748	-

Individual funds with significant deficit balances at June 30, 2005, are as follows:

	<u>2005</u>	<u>2006</u>
Telecommunications Fee	\$ 145,576	\$ 89,206

**NOTE K - COMPONENT UNIT**

Miles Community College Endowment Corporation, is a nonprofit, tax-exempt organization operating exclusively for the purpose of encouraging, promoting and supporting educational programs, research, scholarly pursuits and athletics at, or in connection with the College. Although the College may not control the timing or amount of receipts from this entity, the majority of the revenues or incomes thereon that the entity holds and invests are restricted by donors to the activities of the College.

The College implemented GASB 39 - Determining Whether Certain Organizations Are Component Units-during the fiscal year ended June 30, 2004. As noted in the independent auditor's report, the financial statement information of the Miles Community College Endowment Corporation was not audited.

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2005 AND 2006**

**NOTE L - CONTINGENT LIABILITIES**

An administrative claim in the form of an unfair labor practice was filed by the Miles Community College Faculty Association and a former employee with the Montana Board of Personnel Appeals. An administrative trial has been held and the parties are now awaiting a decision. The decision is subject to review by the full Board and then by the District Court and Supreme Court. Legal counsel stated that if the decision and any subsequent reviews ultimately result in liability for the College, the estimate of loss is the salary and benefits lost by the employee from the date of contract non-renewal less interim earnings plus interest. Legal counsel estimates this amount at approximately \$50,000 per year.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the College expects such amount, if any, to be immaterial.

## **SUPPLEMENTARY INFORMATION**

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Instruction</u>	<u>Public Service</u>	<u>Academic Support</u>	<u>Student Services</u>	<u>Institutional Support</u>	<u>Operation and Maintenance of Plant</u>	<u>Auxiliary</u>	<u>Depreciation</u>	<u>Totals</u>
Salaries	\$ 1,077,707	\$ 38,115	\$ 617,513	\$ 404,334	\$ 368,000	\$ 97,543	\$ 204,323	\$ -	\$ 2,807,535
Benefits	307,328	12,074	182,106	132,967	112,470	36,483	69,452	-	852,880
Travel	6,101	363	50,419	98,144	20,588	-	780	-	176,395
Supplies	27,841	868	117,342	140,094	18,590	19,301	64,824	-	388,860
Contracted Services	11,036	5,974	144,061	87,020	13,053	83,734	69,100	-	413,978
Rent and Lease	426	-	2,934	5,964	7,140	1,153	9,107	-	26,724
Repairs and Maintenance	-	-	-	3,217	-	5,522	4,272	-	13,011
Advertising	-	38	265	30,084	-	-	1,603	-	31,990
Meetings and Dues	3,045	-	-	4,135	13,798	-	-	-	20,978
Utilities	-	-	3,471	9,406	-	79,061	64,902	-	156,840
Student Support	40,889	-	3,496	2,724	-	677	612	-	48,398
Communications	9	423	29,619	14,846	33,517	-	5,536	-	83,950
Software	-	-	7,426	14,285	-	-	-	-	21,711
Unassigned	-	1,732	8,052	48,793	28,858	636	1,952	-	90,023
Scholarships and Grants	48,021	-	-	949,525	-	-	-	-	997,546
Insurance	2,270	-	675	9,149	-	54,765	1,321	-	68,180
Indirect Costs	-	-	14,774	881	-	-	-	-	15,655
Food for Resale	-	-	-	-	-	-	115,441	-	115,441
Items for Resale	-	-	-	-	-	-	232,320	-	232,320
Other	8,532	-	4,370	63,835	105,435	2,286	1,104	-	185,562
Depreciation Expense	-	-	-	-	-	-	-	252,792	252,792
<b>Totals</b>	<b>\$ 1,533,205</b>	<b>\$ 59,587</b>	<b>\$ 1,186,523</b>	<b>\$ 2,019,403</b>	<b>\$ 721,449</b>	<b>\$ 381,161</b>	<b>\$ 846,649</b>	<b>\$ 252,792</b>	<b>\$ 7,000,769</b>

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	\$ 1,115,207	\$ 40,578	\$ 577,272	\$ 476,036	\$ 358,561	\$ 90,382	\$ 217,896	\$ -	\$ 2,875,932
Benefits	331,864	13,314	190,067	156,673	106,644	26,467	82,236	-	907,265
Travel	17,437	861	47,611	83,791	15,168	-	215	-	165,083
Supplies	22,225	5,718	129,561	159,443	12,311	56,853	45,648	-	431,759
Contracted Services	15,751	15,830	117,332	95,508	25,911	45,659	18,181	-	334,172
Rent and Lease	158	8	5,544	5,109	10,697	2,853	9,507	-	33,876
Repairs and Maintenance	-	-	78	796	-	5,062	4,111	-	10,047
Advertising	158	234	1,742	38,912	-	-	1,808	-	42,854
Meetings and Dues	3,534	-	178	8,375	13,924	-	-	-	26,011
Utilities	-	-	3,836	10,398	-	85,091	69,448	-	168,773
Student Support	44,739	-	3,084	3,890	-	1,226	1,049	-	53,988
Communications	1,835	453	28,824	18,645	34,417	-	7,654	-	91,828
Software	-	-	6,584	9,470	-	-	-	-	16,054
Unassigned	117	710	6,069	24,303	47,593	5,143	806	-	84,741
Scholarships and Grants	49,234	-	-	841,638	-	-	2,200	-	893,072
Insurance	4,147	-	288	7,701	-	28,993	16,250	-	57,379
Indirect Costs	-	-	3,125	-	-	-	-	-	3,125
Food for Resale	-	-	-	-	-	-	127,753	-	127,753
Items for Resale	-	-	-	-	-	-	194,372	-	194,372
Other	11,610	-	6,597	64,377	52,174	6,078	2,166	-	143,002
Depreciation Expense	-	-	-	-	-	-	-	258,430	258,430
<b>Totals</b>	<b>\$ 1,618,016</b>	<b>\$ 77,706</b>	<b>\$ 1,127,792</b>	<b>\$ 2,005,065</b>	<b>\$ 677,400</b>	<b>\$ 353,807</b>	<b>\$ 801,300</b>	<b>\$ 258,430</b>	<b>\$ 6,919,516</b>

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2005**

**STUDENT FINANCIAL AID MODIFIED STATEMENT  
OF CASH RECEIPTS AND DISBURSEMENTS**

	<u>PELL</u>	<u>PERKINS</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ (14,432)	\$ 9,795	\$ (3,697)	\$ (449)
Additions:				
Federal Advances	712,504	-	28,128	33,548
State Matching Funds	-	-	-	9,421
Interest Collected	-	1,240		
Principal Collected	<u>-</u>	<u>2,542</u>	<u>-</u>	<u>-</u>
Total Additions	<u>712,504</u>	<u>3,782</u>	<u>28,128</u>	<u>42,969</u>
Deductions:				
Distribution to Students	707,855	-	26,326	42,020
Administrative Expenses	<u>-</u>	<u>-</u>	<u>3,425</u>	<u>-</u>
Total Deductions	<u>707,855</u>	<u>-</u>	<u>29,751</u>	<u>42,020</u>
Net Change in Cash	<u>4,649</u>	<u>3,782</u>	<u>(1,623)</u>	<u>949</u>
Ending Cash Balance	<u>\$ (9,783)</u>	<u>\$ 13,577</u>	<u>\$ (5,320)</u>	<u>\$ 500</u>

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006**

**STUDENT FINANCIAL AID MODIFIED STATEMENT  
OF CASH RECEIPTS AND DISBURSEMENTS**

	<u>PELL</u>	<u>PERKINS</u>	<u>CWS</u>	<u>SEOG</u>
Beginning Cash Balance	\$ (9,783)	\$ 13,577	\$ (5,320)	\$ 500
Additions:				
Federal Advances	562,773	-	29,851	29,622
State Matching Funds	-	-	-	8,754
Interest Collected	-	460	-	-
Principal Collected	-	1,736	-	-
Total Additions	<u>562,773</u>	<u>2,196</u>	<u>29,851</u>	<u>38,376</u>
Deductions:				
Distribution to Students	570,438	-	27,420	37,982
Administrative Expenses	-	-	3,219	-
Total Deductions	<u>570,438</u>	<u>-</u>	<u>30,639</u>	<u>37,982</u>
Net Change in Cash	<u>(7,665)</u>	<u>2,196</u>	<u>(788)</u>	<u>394</u>
Ending Cash Balance	<u>\$ (17,448)</u>	<u>\$ 15,773</u>	<u>\$ (6,108)</u>	<u>\$ 894</u>

MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2005 AND 2006

SCHEDULE OF EXPENDITURES  
STUDENT FINANCIAL ASSISTANCE PROGRAMS

	<u>2005</u>	<u>2006</u>
Perkins Loan Program		
Student Loan Advances	\$ _____ -	\$ _____
College Work Study		
Wages	\$     42,259	\$     47,509
Administrative Cost	3,425	3,219
	<u>\$     45,684</u>	<u>\$     50,728</u>
Supplemental Education Opportunity		
Grant Program		
Student Grants	\$     42,520	\$     39,908
Pell Grant Program		
Student Grants	<u>\$     719,350</u>	<u>\$     575,141</u>

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2005 AND 2006**

**SCHEDULE OF ENROLLMENT STATISTICS**

Semester	Third Week Report			
	Resident	WUE	Nonresident	Total
Summer 2004	73.30	-	1.43	74.73
Fall 2004	506.40	-	28.10	534.50
Spring 2005	442.17	-	27.33	469.50
Summer 2005	54.40	-	0.93	55.33
Fall 2005	434.70	-	27.83	462.53
Spring 2006	388.13	-	24.87	413.00

**MILES COMMUNITY COLLEGE  
MILES CITY, MONTANA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>MAJOR PROGRAMS:</b>			
<b><u>U.S. Department of Education</u></b>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	\$ 32,799
College Work Study	84.033	N/A	29,700
Federal Family Education Loans *	84.032	N/A	1,036,853
Pell Grant Program	84.063	N/A	719,350
Total Student Financial Aid Cluster			<u>1,818,702</u>
Even Start	84.213C	58-6501-38-05	<u>131,212</u>
Passed-Through Office of the Commissioner of Higher Education:			
Carl D.Perkins Nontraditional Training & Employment	84.048	MCCNT05	25,000
Carl D. Perkins Rural	84.048	I-RR05	35,000
Carl D. Perkins Vocational Act	84.048	MCCLP05	54,125
Techno-Savvy	84.048A	MCC35L05	<u>80,775</u>
Total CFDA #84.048			<u>194,900</u>
Fund for Improvement of Post-Secondary Education	84.116B	P116B021210-04	<u>174,645</u>
Total U.S. Department of Education - Major Programs			<u>2,319,459</u>
<b>NON-MAJOR PROGRAMS:</b>			
<b><u>U. S. Department of Agriculture</u></b>			
Direct Programs:			
ROCKS	10.500	2002-41520-01366	<u>28,090</u>
<b><u>U.S. Department of Labor</u></b>			
Pass-Through the Montana Job Training Partnership, Inc.:			
WIA Adult Program	17.258	R04002A	42,396
WIA Adult Program	17.258	R04003A	<u>56,106</u>
Total U.S. Department of Labor			<u>98,502</u>
<b><u>U.S. Department of Education</u></b>			
Direct Programs:			
Adult Basic Education	84.002	5865015605BG	<u>39,257</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
VA Task Force	14.XXX		<u>32,023</u>
<b><u>U.S. Department of Treasury</u></b>			
Pass-Through the State of Montana			
Job Growth Tax Relief	21.XXX		<u>100,912</u>
<b><u>Corporation for National and Community Service</u></b>			
Direct Programs:			
Retired Senior Volunteer Program	94.002	035RPMT012	<u>74,077</u>
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			<u>\$ 2,692,320</u>

\* This program's activity is not reflected in the financial statements of this entity.

**MILES COMMUNITY COLLEGE**  
**MILES CITY, MONTANA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures
<b>MAJOR PROGRAMS:</b>			
<b><u>U.S. Department of Education</u></b>			
Direct Programs:			
Supplemental Educational Opportunity Grant Program	84.007	N/A	\$ 31,154
College Work Study	84.033	N/A	30,339
Federal Family Education Loans *	84.032	N/A	1,247,962
Pell Grant Program	84.063	N/A	575,141
Total Student Financial Aid Cluster			<u>1,884,596</u>
Even Start	84.213C	58-6501-38-05	<u>114,206</u>
Passed-Through Office of the Commissioner of Higher Education:			
Carl D.Perkins Nontraditional Training & Employment	84.048	MCCNT05	25,000
Carl D. Perkins Rural	84.048	I-RR05	36,635
Carl D. Perkins - Expanding Opportunities	84.048	MCC SP06	26,000
Carl D. Perkins Vocational Act	84.048	MCCLP05	78,929
Total CFDA #84.048			<u>166,564</u>
Fund for Improvement of Post-Secondary Education	84.116B	P116B021210-04	<u>196,178</u>
Total U.S. Department of Education - Major Programs			<u>2,361,544</u>
<b>NON-MAJOR PROGRAMS:</b>			
<b><u>U. S. Department of Agriculture</u></b>			
Direct Programs:			
ROCKS	10.500	2002-41520-01366	<u>22,840</u>
<b><u>U.S. Department of Labor</u></b>			
Pass-Through the Montana Job Training Partnership, Inc.:			
WIA Adult Program	17.258	R05002A	15,733
WIA Adult Program	17.258	R05003A	18,779
Pass-Through the Montana Department of Labor:			
WIA Adult Program	17.258	MCC900AD	22,558
WIA Adult Program	17.258	MCC900AD3	31,648
Total CFDA #17.258			<u>88,718</u>
Total U.S. Department of Labor			<u>88,718</u>
<b><u>U.S. Department of Education</u></b>			
Direct Programs:			
Adult Basic Education	84.002	5865015605BG	39,257
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	610-614	<u>7,946</u>
Total U.S. Department of Education - Non-Major Programs			<u>47,203</u>
<b><u>U.S. Department of Housing and Urban Development</u></b>			
Direct Programs:			
VA Task Force	14.XXX	N/A	<u>6,223</u>
<b><u>Corporation for National and Community Service</u></b>			
Direct Programs:			
Retired Senior Volunteer Program	94.002	035RPMT012	<u>70,963</u>
TOTAL FOR ALL FEDERAL AWARDS PROGRAMS			<u>\$ 2,597,491</u>

\* This program's activity is not reflected in the financial statements of this entity.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF GENERAL PURPOSE  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

Legislative Audit Committee  
of the Montana State Legislature

We have audited the basic financial statements of Miles Community College as of and for the years ended June 30, 2005 and 2006, as listed in the table of contents and have issued our report thereon dated September 1, 2006. Our report was modified because the component unit Miles Community College Endowment's financial statements were not audited. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Miles Community College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Miles Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Miles Community College in the accompanying schedule of findings on page 37 as finding #06-01 and #06-02.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Miles Community College's management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

CHMS, PC

CHMS, P.C.  
Certified Public Accountants

September 1, 2006



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Legislative Audit Committee  
of the Montana State Legislature

**Compliance**

We have audited the compliance of Miles Community College with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006. Miles Community College's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings on pages XX. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Miles Community College's management. Our responsibility is to express an opinion on Miles Community College's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Miles Community College's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Miles Community College's compliance with those requirements.

In our opinion, Miles Community College complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the years ended June 30, 2005 and 2006.

**Internal Control Over Compliance**

The management of Miles Community College is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Miles Community College's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Miles Community College's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings on page 37 as Finding #06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would note necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of the Legislative Audit Committee of the Montana State Legislature, Miles Community College's management, federal agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

CHMS PC

CHMS, P.C.  
Certified Public Accountants

September 1, 2006

**MILES COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS  
YEARS ENDED JUNE 30, 2005 AND 2006**

**SECTION 1 – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor’s report issued: ..... Qualified

Internal control over financial reporting:

    Material weakness identified? ..... No

    Reportable conditions identified not considered  
    to be material weaknesses? ..... Yes

Noncompliance material to financial statements noted? ..... No

**Federal Awards**

Internal control over major programs:

    Material weakness identified? ..... No

    Reportable conditions identified not considered  
    to be material weaknesses? ..... Yes

Type of auditor’s report issued on compliance  
for major programs: ..... Unqualified

Any audit findings disclosed that are required to be reported  
in accordance with Circular A-133, Section .510(a)? ..... No

Identification of major programs:

<u>CFDA Number</u>	<u>Award Year</u>	<u>Name of Federal Program</u>
84.007, 84.033, 84.032& 84.063	04-05 & 05-06	Student Financial Aid Cluster
84.213C	04-05 & 05-06	Evenstart
84.048	04-05 & 05-06	Perkins
84.116B	04-05 & 05-06	Fund for Improvement of Post- Secondary Education

Dollar threshold used to distinguish between  
Type A and Type B programs: ..... \$300,000

Auditee qualified as low-risk auditee? ..... No

**MILES COMMUNITY COLLEGE  
SCHEDULE OF FINDINGS (CONTINUED)  
YEARS ENDED JUNE 30, 2005 AND 2006**

## **SECTION II – FINANCIAL STATEMENT FINDINGS**

### **FINDING #06-01 – NON-BUDGETED FUNDS EXPENDITURE LIMITATIONS**

The College has a number of individual non-budgeted funds with deficit cash balances. According to Montana Code Annotated §20-9-210, the expenditures for a non-budgeted fund are limited to that fund's cash balance. The College requested a County Attorney's opinion regarding the definition of non-budgeted funds for community colleges. No firm definition of non-budgeted funds was provided to the College by the County Attorney.

#### **Recommendation**

The College should request an Attorney General's opinion on the definition of non-budgeted funds for community colleges. For those funds defined as non-budgeted funds, expenditures should be limited to the amount of cash available in that fund.

#### **PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

<u>Finding</u>	<u>Status</u>
Finding #04-1 – Segregation of Duties	Implemented
Finding #04-2 – Non-Budgeted Funds Expenditures	Not Implemented – Finding #06-01
Finding #04-3 – Purchase of Property	Implemented

## **SECTION III – FEDERAL AWARD FINDINGS**

### **FINDING #06-02 – EXIT CONFERENCES – STUDENT LOAN PROGRAM**

The College is required to conduct and document exit counseling for the Federal Family Educational Loan Program, pursuant to 34 CFR 682.04 and 685.303. In a sample of 27 files, 7 files did not contain the required documentation of exit conferences or documentation of an attempt to contact the student.

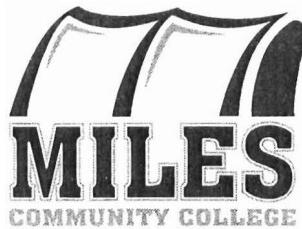
#### **Recommendation**

The College should develop a system to identify students that withdraw or leave school during the year who need exit conferences completed. As an additional safeguard to ensure the documentation is in the student's file, the College should develop a checklist to track when the required documentation for exit conferences has been placed in the student's file.

#### **PRIOR YEARS' RECOMMENDATIONS**

A summary of the recommendations from fiscal years June 30, 2003 and 2004 is as follows:

<u>Finding</u>	<u>Status</u>
Finding #04-4 – Student Financial Aid Exit Conferences	Partially Implemented



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*Equal Opportunity in  
Education and Employment.*

November 20, 2006

CHMS, P.C.  
P.O. Box 1067  
104 Second Avenue S.W.  
Sidney, Montana 59270

To Whom It May Concern:

**Finding #06-01 – Non-Budgeted funds expenditure limitations**

The College has a number of individual non-budgeted funds with a deficit cash balances. According to Montana Code Annotated S20-9-210, the expenditures for a non-budgeted fund are limited to that fund's cash balance. The College has requested a County Attorney's opinion regarding the definition of non-budgeted funds for community colleges. The County Attorney has not provided the College with a firm definition of non-budgeted funds for a community college.

**Recommendation** – For those funds defined as non-budgeted funds, the College should monitor expenditures closely and limit expenditures to the amount of cash available in that fund.

**Response** - The College has received guidance from the Montana University System attorney, who concurred with the audit finding regarding the definition of non-budgeted funds for community colleges. The College has made some progress in eliminating deficit cash balances in non-budgeted funds. As of June 30, 2006 there are two non-budgeted funds remaining that have deficit cash balances. By increasing users fees, controlling costs, and re-allocating resources we hope to make significant progress in eliminating the two remaining deficit cash balances over the next two fiscal years.

**Finding #06-02** – The College is required to conduct and document exit counseling for the Federal Family Educational Loan Program, pursuant to 34 CFR 682.04 and 685.303. In a sample of 40 files, 3 files did not contain the required documentation of exit conferences or documentation of an attempt to contact the student.

**Recommendation** – The College should develop a system to identify students that withdraw or leave school during the year who need exit conferences completed. As an additional safeguard to ensure the documentation is in the student's file, the College should develop a checklist to track when the required documentation for exit conferences has been placed in the student's file.

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**Response** – A system has been developed in collaboration with the Student Assistance Foundation Campus Outreach Manager housed on the Miles Community College campus to compare enrollment reports from one semester to the subsequent semester to identify non-returning students. The non-returning students that had student loans at Miles Community College and have not completed exit counseling prior to leaving are then sent a letter explaining the exit counseling requirements and material to fulfill that obligation. A copy of this letter is sent to the Miles Community College Financial Aid Office to be placed in the students file.

Sincerely,

Tad Torgerson  
Dean Administrative Services